

Hanna Water & Sewer District,  
Duchesne County, Utah

**ANNUAL FINANCIAL REPORT**

For the Year Ended December 31, 2005

Hanna Water & Sewer District  
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December 31, 2005

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## ACCOUNTANT'S REPORT

Board of Directors  
Hanna Water and Sewer District  
Hanna, Utah

I have reviewed the accompanying statements of net assets of Hanna Water and Sewer District as of and for the year ended December 31, 2005, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. I conducted my review in accordance with Statements on Standards for Accounting and Review Service issued by the American Institute of Certified Public Accountants. These financial statements are the responsibility of management of Hanna Water and Sewer District.

A review consists principally of inquiries of the District personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, I do not express such an opinion.

Based on my review, I am not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not review the information and express no opinion on it.



August 21, 2006

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

Hanna Water & Sewer District  
**Management's Discussion and Analysis**  
December 31, 2005

As management of Hanna Water & Sewer District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2005.

**FINANCIAL HIGHLIGHTS**

- \* Total net assets decreased by \$70,880 which is the net loss for the year.
- \* Unrestricted net assets decreased by \$24,130.
- \* Unrestricted cash decreased by \$53,832.
- \* Restricted cash (restricted for debt service) increased by \$16,836.
- \* Liabilities, other than long-term debt, decreased by \$14,634.
- \* Long-term debt principal decreased by \$18,288.

**BASIC FINANCIAL STATEMENTS**

The District is a special-purpose government engaged in business-type activities. All transactions related to its activities are recorded in a single enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges.

The financial statements presented in this report are those required of an enterprise fund and consist of (1) the statement of net assets, (2) the statement of revenues, expenses, and changes in net assets, (3) the statement of cash flows, and (4) the notes to the financial statements.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. However, other non-financial factors need to be considered as well.

The statement of revenues, expenses, and changes in net assets (the income statement) presents information about the amounts of revenues, expenses, and resulting net income for the year. Net income is the change in net assets. All items of income and expense are reported as soon as the underlying event giving rise to those items occurs, regardless of the when cash is received or paid.

The statement of cash flows starts with the amounts of net income and removes the non-cash portion (the receivables and payables which did not provide or use cash), thus converting the amounts to a cash basis.

The notes to the financial statements provide additional information to further explain the data presented in the financial statements.

Hanna Water & Sewer District  
**Management's Discussion and Analysis**  
December 31, 2005

**FINANCIAL ANALYSIS**

**Hanna Water & Sewer District's Net Assets**

	Current Year	Previous Year	Change
Current and other assets	113,861	135,789	(21,928)
Capital assets	<u>4,347,860</u>	<u>4,429,734</u>	<u>(81,874)</u>
<b>Total assets</b>	<b><u>4,461,721</u></b>	<b><u>4,565,523</u></b>	<b><u>(103,802)</u></b>
Long-term liabilities	2,369,579	2,387,867	(18,288)
Other liabilities	<u>76,827</u>	<u>91,461</u>	<u>(14,634)</u>
<b>Total liabilities</b>	<b><u>2,446,406</u></b>	<b><u>2,479,328</u></b>	<b><u>(32,922)</u></b>
Net assets:			
Invested in net assts, net of debt	1,978,281	2,041,867	(63,586)
Restricted	16,836	-	16,836
Unrestricted	<u>20,198</u>	<u>44,329</u>	<u>(24,130)</u>
<b>Total net assets</b>	<b><u>2,015,316</u></b>	<b><u>2,086,195</u></b>	<b><u>(70,880)</u></b>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Assets exceeded liabilities at the close of the year by \$2,015,316, a decrease of \$70,880, indicating that the overall financial position has declined during the year.

Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

The decrease in current and other assets represents the amount of resources used to repay debt and other liabilities, and to construct capital assets during the year.

The decrease in capital assets represents the amount of depreciation charged to operations which exceeded the amount expended for capital assets.

Hanna Water & Sewer District  
**Management's Discussion and Analysis**  
December 31, 2005

**FINANCIAL ANALYSIS (continued)**

**Hanna Water & Sewer District's Changes in Net Assets**

	<u>Current Year</u>	<u>Previous Year</u>	<u>Change</u>
Operating income			
Water service income	67,184	41,081	26,103
Other operating income	<u>4,428</u>	<u>6,862</u>	<u>(2,434)</u>
<b>Total operating income</b>	<b><u>71,612</u></b>	<b><u>47,943</u></b>	<b><u>23,669</u></b>
Operating expenses:			
Depreciation expense	105,039	104,117	922
Other operating expense	<u>47,778</u>	<u>42,890</u>	<u>4,889</u>
<b>Total operating expense</b>	<b><u>152,817</u></b>	<b><u>147,007</u></b>	<b><u>5,810</u></b>
<b>Operating income</b>	<b><u>(81,205)</u></b>	<b><u>(99,064)</u></b>	<b><u>17,859</u></b>
Non-operating items:			
Revenues	28,408	159,109	(130,701)
Expenses	<u>(18,082)</u>	<u>(21,175)</u>	<u>3,093</u>
<b>Total net non-operating items</b>	<b><u>10,326</u></b>	<b><u>137,933</u></b>	<b><u>(127,608)</u></b>
<b>Net income (loss)</b>	<b><u>(70,880)</u></b>	<b><u>38,869</u></b>	<b><u>(109,749)</u></b>

Water service income increased by \$26,103 over the previous year. Water rates were changed at the beginning of the year. Also, more customers are using the water than during the previous year. Other operating income decreased by \$2,434, mostly as a result of the decrease in connection fees. Connection fees are recognized as income when the physical service is installed, rather than when the fee is received, which enables a matching of the revenue and installation costs.

Depreciation expense is the largest single element of operating costs and increased over the amount of the previous year by \$922. Other operating expenses decreased by \$4,889 compared to the previous year, generally as a result of the decrease in costs of connections as described above..

The operating loss decreased by \$17,859, although the operating loss for the year of \$81,205 is still significant.

Non-operating items decreased significantly compared to the previous year. Impact fee revenue is lower than the previous year. The non-operating expense is interest on long-term debt.

Hanna Water & Sewer District  
Management's Discussion and Analysis  
December 31, 2005

**BUDGETARY HIGHLIGHTS**

The District operates as an enterprise fund, and is required to comply with the operating budget on an entity-wide basis. There were no budget amendments during the year.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Hanna Water & Sewer District's Capital Assets**  
(net of depreciation)

	Current Year	Previous Year
Land and rights of way	\$ 113,415	111,415
Water rights	478,445	478,445
Buildings and structures	207,208	212,777
Water system facilities	3,514,985	3,578,505
Machinery and equipment	28,156	32,704
Construction in progress	5,650	15,887
<b>Total</b>	<b><u>\$4,347,860</u></b>	<b><u>4,429,734</u></b>

There was little change in capital assets during the year other than some line extensions. Additional information may be found in the notes to financial statements.

**Hanna Water & Sewer District's Outstanding Debt**  
Revenue Bonds

	Current Year	Previous Year
USDA RDA bond	\$ 347,579	365,867
BOWR bond	1,325,000	1,325,000
CIB bond	697,000	697,000
<b>Total</b>	<b><u>\$2,369,579</u></b>	<b><u>2,387,867</u></b>

Principal was repaid on the USDA RDA bond in the total amount of \$18,288, which was the only change in the amount of long-term liabilities during the year. Two annual payments were made on the USDA RDA bond in January, 2005, which will eliminate the need for a payment in January, 2006.

There were, however, some changes made in the terms of some of the bonds which are described on the next page and in Note 3-D on page 24 in the notes to the financial statements.



Hanna Water & Sewer District  
**Management's Discussion and Analysis**  
December 31, 2005

**CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS EXPECTED TO HAVE AN IMPACT ON FINANCIAL POSITION AND RESULTS OF OPERATIONS**

**Change in bond terms**

On March 31, 2005, the terms of two of the bonds outstanding were changed in order to address the slower than expected growth in service revenues which are necessary to repay the debt.

The terms of the bond held by the Community Impact Board of the State of Utah changed to eliminate the interest charged on the bond, and to extend the repayment period from 20 to 25 years.

The terms of the bond held by the Division of Water Resources of the State of Utah changed to extend the repayment period from 25 to 35 years. There was and is no interest on this bond.

Principal payments, on both of these bonds, have been suspended for a three year period. The first principal payments will be due March 31, 2008.

**Change in water service rates**

Water service rates were changed as of January 1, 2005. The previous rates in effect were:

- Minimum monthly service rate of \$40.00 with a minimum allowance of 8,000 gallons.
- Charge for usage over 8,000 gallons per month is \$1.50 per thousand gallons.
- Standby monthly rate of \$10.00 per month.
- Meter charge of \$1.00 per month.

The new rates are as follows:

- Minimum monthly service rate of \$45.00 with a minimum allowance of 8,000 gallons.
- Charge for usage over 8,000 gallons per month is \$1.50 per thousand gallons.
- Standby monthly rate of \$25.00 per month.

The meter charge was eliminated.

The standby monthly rate is applicable to those water services that are in place, but not in use.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Board at P.O. Box 465, Tabiona, Utah 84072.

**BASIC FINANCIAL STATEMENTS**

Hanna Water & Sewer District  
**STATEMENT OF NET ASSETS**  
December 31, 2005

	Current Year	Previous Year
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 66,607	120,439
Receivables:		
Property taxes	1,933	2,649
Customer accounts	11,561	1,816
Prepaid assets	-	1,385
Total current assets	<u>80,101</u>	<u>126,289</u>
Non-current assets:		
Restricted cash and cash equivalents	16,836	-
Receivables due after one year	6,500	9,500
Deferred bond issue costs, net	10,424	-
Capital assets:		
Land and rights of way	113,415	111,415
Water rights / stock	478,445	478,445
Buildings and structures	222,755	222,755
Water system facilities	3,776,269	3,744,867
Machinery and equipment	38,601	38,601
Construction in progress	5,650	15,887
Less accumulated depreciation	<u>(287,275)</u>	<u>(182,236)</u>
Total non-current assets	<u>4,381,620</u>	<u>4,439,234</u>
<b>Total assets</b>	<b><u>\$4,461,721</u></b>	<b><u>4,565,523</u></b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 10,970	40,112
Accrued interest payable	14,484	-
Deferred revenues	51,373	51,349
Revenue bonds, current portion	-	3,645
Total current liabilities	<u>76,827</u>	<u>95,106</u>
Non-current liabilities:		
Revenue bonds, long-term	<u>2,369,579</u>	<u>2,384,222</u>
Total non-current liabilities	<u>2,369,579</u>	<u>2,384,222</u>
<b>Total liabilities</b>	<b><u>2,446,406</u></b>	<b><u>2,479,328</u></b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	1,978,281	2,041,867
Restricted for debt service	16,836	-
Unrestricted	20,198	44,329
Total net assets	<u>2,015,316</u>	<u>2,086,195</u>
<b>Total liabilities and net assets</b>	<b><u>\$4,461,721</u></b>	<b><u>4,565,523</u></b>

The notes to the financial statements are an integral part of this statement.

Hanna Water & Sewer District  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
For the Year Ended December 31, 2005

	Current Year	Previous Year
<b>OPERATING REVENUES</b>		
Water service income	\$ 67,184	41,081
Initial connection fees	1,675	4,025
Other operating revenues	<u>2,753</u>	<u>2,837</u>
<b>Total operating revenues</b>	<b><u>71,612</u></b>	<b><u>47,943</u></b>
<b>OPERATING EXPENSES</b>		
Source of supply expense	5,255	5,163
Operation and maintenance expense	14,954	16,817
Billing and collection expense	10,621	10,461
Administrative expense	16,948	10,448
Depreciation expense	<u>105,039</u>	<u>104,117</u>
<b>Total operating expense</b>	<b><u>152,817</u></b>	<b><u>147,007</u></b>
<b>Net income (loss) from operations</b>	<b><u>(81,205)</u></b>	<b><u>(99,064)</u></b>
<b>NON-OPERATING REVENUE (EXPENSE)</b>		
Interest income	3,052	1,137
Property tax revenue	11,726	16,187
Impact fees	13,630	141,785
Interest on debt	<u>(18,082)</u>	<u>(21,175)</u>
<b>Total non-operating revenue (expense)</b>	<b><u>10,326</u></b>	<b><u>137,933</u></b>
<b>Net income (loss)</b>	<b><u>(70,880)</u></b>	<b><u>38,869</u></b>
<b>Net assets, beginning</b>	<b><u>2,086,195</u></b>	<b><u>2,047,327</u></b>
<b>Net assets, ending</b>	<b><u>\$2,015,316</u></b>	<b><u>2,086,195</u></b>

The notes to the financial statements are an integral part of this statement.

Hanna Water & Sewer District  
**STATEMENT OF CASH FLOWS**  
For the year ending December 31, 2005

	Current Year	Previous Year
<b>Cash flows from operating activities:</b>		
Cash received from customers - service	\$ 64,891	50,932
Cash paid suppliers	(35,954)	(35,635)
Cash paid to employees	(8,397)	(8,397)
<b>Net cash provided (used) in operating activities</b>	<b><u>20,541</u></b>	<b><u>6,900</u></b>
<b>Cash flows from noncapital financing activities:</b>		
Property tax received	12,442	13,537
<b>Net cash provided (used) in noncapital financing activities</b>	<b><u>12,442</u></b>	<b><u>13,537</u></b>
<b>Cash flows from capital and related financing activities:</b>		
Cash from impact fees	13,630	11,775
Cash payments for construction and acquisition of plant	(54,350)	(29,975)
Cash payments for long-term debt principal	(18,288)	(81,633)
Cash payments for long-term debt interest	(14,022)	(50,165)
<b>Net cash provided (used) in capital and related financing activities</b>	<b><u>(73,030)</u></b>	<b><u>(149,998)</u></b>
<b>Cash flows from investing activities:</b>		
Cash received from interest earned	3,052	1,137
<b>Net cash provided (used) in investing activities</b>	<b><u>3,052</u></b>	<b><u>1,137</u></b>
<b>Net increase (decrease) in cash</b>	<b>(36,996)</b>	<b>(128,424)</b>
Cash balance, beginning	120,439	248,863
<b>Cash balance, ending</b>	<b>\$ <u>83,443</u></b>	<b><u>120,439</u></b>
<b>Cash reported on the balance sheet:</b>		
Cash and cash equivalents	66,607	120,439
Non-current restricted cash	16,836	-
<b>Total cash and cash equivalents</b>	<b>\$ <u>83,443</u></b>	<b><u>120,439</u></b>

Continued on next page

The notes to the financial statements are an integral part of this statement.

Hanna Water & Sewer District  
**STATEMENT OF CASH FLOWS, continued**  
For the year ended December 31, 2005

**Reconciliation of Operating Income  
to Net Cash Provided from Operating Activity:**

	<u>Current Year</u>	<u>Previous Year</u>
<b>Net operating income (expense)</b>	<b>\$ (81,205)</b>	<b>(99,064)</b>
Adjustments to reconcile operating income or (loss) to net cash provided (used) in operating activities		
Depreciation and amortization	105,039	104,117
Property taxes classified as noncapital financing cash flows		
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(6,745)	(5,560)
(Increase) decrease in prepaid expense	1,385	(1,385)
Increase (decrease) in accounts payable - operations	2,043	243
Increase (decrease) in deferred connections	<u>24</u>	<u>8,549</u>
<b>Net cash provided in operating activity</b>	<b>\$ <u>20,541</u></b>	<b><u>6,900</u></b>

The notes to the financial statements are an integral part of this statement.

Hanna Water & Sewer District  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1-A. Reporting entity**

Hanna Water & Sewer District (the District) is a special district organized on April 18, 1996, by the Duchesne County Commission for the purpose of providing culinary water service as well as sewer collection facilities. After a period of construction, the District began operations in April, 2003, serving residents of the District with culinary water service. No sewer operations are contemplated at present. The district operates under a Board of Trustees form of government. Trustees are elected by the citizens of the District.

The District has no component units and is not a component unit of another entity.

**1-B. Government-wide financial statements**

Government-wide financial statements display information about the District as a whole. The financial statements presented are those required of an enterprise fund and consist of the statement of net assets, the statement of revenues, expenses, and changes in net assets and the statement of cash flows. The District is considered a special-purpose government engaged in business-type activities and records all of the transactions related to its activities in a single enterprise fund. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges. No fiduciary funds or components that are fiduciary in nature are included.

**1-C. Measurement focus, basis of accounting, and financial statement presentation**

*Measurement focus* is commonly used to describe the types of transactions and events that are reported in a fund's operating statement. The operating statement of an enterprise fund focuses on changes in, or the flow of, *economic* resources. With this measurement focus, all assets and liabilities associated with the operation of the fund, both current and non-current, are included on the statement of net assets. Thus, net assets (total assets less total liabilities) are used as a practical measure of economic resources.

*Basis of accounting* refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. As a practical matter, a fund's basis of accounting is inseparably tied to its measurement focus. Funds that focus on total economic resources employ the accrual basis of accounting, which recognizes increases and decreases in economic resources as soon as the underlying event or transaction occurs. Under accrual accounting, revenues are recognized as soon as they are earned and expenses are recognized as soon as a liability is incurred, regardless of the timing of related cash inflows and outflows.

Hanna Water & Sewer District  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**1-C. Measurement focus, basis of accounting, and financial statement presentation  
(continued)**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

Enterprise funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. The principal operating revenues of the District's enterprise fund are charges to customers for sales and services. The District also recognizes the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**1-D. Assets, liabilities, and net assets or equity**

***1. Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, and the State Treasurer's Investment Fund.

Investments for the District are reported at fair value. The State Treasurer's Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the value of the pool shares.

***2. Receivables and payables***

Monthly reviews are made of all past due accounts. Shut-off notices are issued on past due active accounts and the District has lien capability on unpaid standby accounts. Customer receivables are considered collectible.

Property taxes are collected by Duchesne County for the District. Taxes are levied as of January 1 on property values assessed as of the same date and are due November 30 of the year of assessment. All property tax receivables are considered collectible.



Hanna Water & Sewer District  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**1-D. Assets, liabilities, and net assets or equity (continued)**

***3. Inventories and prepaid items***

Inventories are valued at cost using the first-in / first-out method. However, the District maintains no significant inventories as materials are generally acquired only as needed.

At various times, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

***4. Restricted assets***

Certain proceeds of the District's revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

***5. Capital assets***

All purchased capital assets, which include property, plant, and equipment, are carried at cost or estimated historical cost. Contributed capital assets are valued at estimated fair market value on the date received. Capital assets are defined as items with an initial, individual cost of more than \$2,000 and an expected life of more than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Interest incurred during the construction phase of capital assets, if directly related to the construction, is included as part of the capitalized amount of the assets constructed. There was no interest capitalized during the current year.

Property, plant, and equipment is depreciated using the straight line method over the following estimated useful lives:

Water system 15-40 years

Equipment 5-10 years

***6. Compensated absences***

The district has no policy regarding vested or accumulated vacation leave or sick leave and no liability for such is recorded.

Hanna Water & Sewer District  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**1-D. Assets, liabilities, and net assets or equity (continued)**

**7. Long-term obligations**

Long-term debt and other long-term obligations are reported as liabilities. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

**8. Equity**

The difference between total assets and total liabilities represents equity or net assets. Net assets presented in the statement of net assets are subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

**9. Comparative data/reclassifications**

Comparative data are presented in the financial statements in order to provide an understanding of the changes in the financial position and operations. Also, certain amounts presented in the previous year data have been reclassified in order to be consistent with the current year's presentation. Reclassification was as follows:

Retained earnings reported, December 31, 2004	\$2,154,270
Less water and easement rights recorded twice in 2003	(25,600)
Less connect fees taken to income in 2003 where the service connection had not been installed	<u>( 42,475)</u>
Retained earnings restated, December 31, 2004	<u>\$2,086,195</u>

**NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**2-A. Budgetary information**

An annual operating budget is adopted by the District's board of trustees, on a basis consistent with generally accepted accounting principles, and as prescribed by state regulation. The budget is adopted prior to the beginning of the year to which it applies after a public hearing has been held. Subsequent amendments to the operating budget may be made after a public hearing.

A capital budget is also adopted by the board of trustees which identifies planned capital asset additions and requirements for long-term debt service principal payments, as well as the plan for financing these items.

Hanna Water & Sewer District  
**NOTES TO FINANCIAL STATEMENTS**  
December 31, 2005

**NOTE 3 - DETAILED NOTES**

**3-A. Deposits and investments**

Cash and investments as of December 31, 2005 consist of the following:

	<u>Fair Value</u>
Demand deposits - checking	\$20,072
Investments - PTIF	<u>63,371</u>
<b>Total cash and investments</b>	<b><u>\$83,443</u></b>

Cash and investments listed above are classified in the accompanying government-wide statement of net assets as follows:

Cash and cash equivalents	\$66,607
Restricted cash and cash equivalents	<u>16,836</u>
<b>Total cash and cash equivalents</b>	<b><u>\$83,443</u></b>

Cash equivalents and investments are carried at fair value in accordance with GASB Statement No. 31.

The Utah Money Management Act (UMMA) establishes specific requirements regarding deposits of public funds by public treasurers. UMMA requires that city funds be deposited with a qualified depository which includes any depository institution which has been certified by the Utah State Commissioner of Financial Institutions as having met the requirements specified in UMMA Section 51, Chapter 7. UMMA provides the formula for determining the amount of public funds which a qualified depository may hold in order to minimize risk of loss and also defines capital requirements which an institution must maintain to be eligible to accept public funds. UMMA lists the criteria for investments and specifies the assets which are eligible to be invested in, and for some investments, the amount of time to maturity.

UMMA enables the State Treasurer to operate the Public Treasurer's Investment Pool (PTIF). PTIF is managed by the Utah State Treasurer's investment staff and comes under the regulatory authority of the Utah Money Management Council. This council is comprised of a select group of financial professionals from units of local and state government and financial institutions doing business in the state. PTIF operations and portfolio composition is monitored at least semi-annually by the Utah Money Management Council. PTIF is unrated by any nationally recognized statistical rating organizations. Deposits in PTIF are not insured or otherwise guaranteed by the State of Utah. Participants share proportionally in any realized gains or losses on investments which are recorded on an amortized cost basis. The balance available for withdrawal is based on the accounting records maintained by PTIF. The fair value of the investment pool is approximately equal to the value of the pool shares. The District maintains monies not immediately needed for expenditure in the PTIF.

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**3-A. Deposits and investments (continued)**

**Deposit and Investment Risk**

The District maintains no investment policy containing any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by UMMA. The District's compliance with the provisions of UMMA addresses each of these risks.

**Interest rate risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. All deposits and investments of the District are available immediately.

**Credit risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations. Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits. All of the District's demand deposits are covered by FDIC insurance.

Custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. This risk is addressed through the policy of investing excess monies only in PTIF.

**Concentration of credit risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. PTIF falls under the constraints of UMMA in limiting concentrations of investments.

**3-B. Receivables**

Accounts not expected to be collected within one year are captioned as non-current receivables. Accounts receivable are shown on the financial statements as follows:

	Current <u>Year</u>	Previous <u>Year</u>
Property taxes receivable	\$ 1,933	2,649
Current customer accounts receivable	11,561	1,816
Non-current accounts receivable	<u>6,500</u>	<u>9,500</u>
<b>Total receivables</b>	<b><u>\$19,994</u></b>	<b><u>13,965</u></b>

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**3-C. Capital Assets**

A summary of capital asset activity is listed below.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Capital assets, not being depreciated:</b>				
Land and land rights	\$ 111,415	2,000	-	113,415
Water rights	478,445	-	-	478,445
Construction in progress	15,887	(10,237)	-	5,650
<b>Total capital assets, not depreciated</b>	<b><u>605,747</u></b>	<b><u>(8,237)</u></b>	<b><u>-</u></b>	<b><u>597,510</u></b>
<b>Capital assets, being depreciated:</b>				
Water system facilities	3,744,867	31,402	-	3,776,269
Buildings and structures	222,755	-	-	222,755
Equipment	38,601	-	-	38,601
<b>Total capital assets being depreciated</b>	<b><u>4,006,223</u></b>	<b><u>31,402</u></b>	<b><u>-</u></b>	<b><u>4,037,625</u></b>
<b>Less accumulated depreciation for:</b>				
Water distribution system	166,362	94,923	-	261,284
Buildings and structures	9,978	5,569	-	15,547
Equipment	5,897	4,548	-	10,444
<b>Total accumulated depreciation</b>	<b><u>182,236</u></b>	<b><u>105,039</u></b>	<b><u>-</u></b>	<b><u>287,275</u></b>
<b>Capital assets being depreciated, net</b>	<b><u>3,823,987</u></b>	<b><u>(73,637)</u></b>	<b><u>-</u></b>	<b><u>3,750,350</u></b>
<b>Capital assets, net</b>	<b><u>\$4,429,734</u></b>	<b><u>(81,874)</u></b>	<b><u>-</u></b>	<b><u>4,347,860</u></b>

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**3-D. Long-term debt**

Long-term debt activity for the year was as follows:

	Original Principal	% Rate	12/31/2004	Additions	Reductions	12/31/2005	Due Within One Year
USDA RDA 2002	\$ 373,000	4.50	\$ 365,867	-	18,288	347,579	-
CIB series 2002A	725,500	2.50	697,000	-	697,000	-	-
BoWR series 2002B	1,371,000	-	1,325,000	-	1,325,000	-	-
CIB series 2005A	697,000	-	-	697,000	-	697,000	-
BoWR series 2005B	1,325,000	-	-	1,325,000	-	1,325,000	-
<b>Totals</b>			<b><u>\$2,387,867</u></b>	<b><u>2,022,000</u></b>	<b><u>2,040,288</u></b>	<b><u>2,369,579</u></b>	<b><u>-</u></b>

All bonds are revenue bonds secured by the revenues of the water system. Bonds were issued to finance the construction of the water system. On March 31, 2005, the terms of the CIB series 2002A and the BoWR series 2002B bonds outstanding were changed to assist the District with its cash flow. New bonds were issued which repaid the bonds outstanding. The terms of the new CIB series 2005A bond eliminates the interest charge on the bond and extends the repayment period from 20 to 25 years. The terms of the new BoWR bond extends the repayment period from 25 to 35 years. There no interest on this bond as was the case with the old bond. Principal payments, on both of these new bonds, have been suspended for three years. The first principal payments are due March 31, 2008.

The payment for the current year was made twice on the USDA RUS bond. USDA has agreed to allow the skipping of the payment due in January 2006 on this bond, hence there is no current maturity.

Bond interest is charged to operations as it is accrued, not when paid. The table which follows lists the payment date of the interest, rather than the date charged to operations.

Revenue bond debt service requirements to maturity are as follows:

	Principal	Interest	Total
2006	\$ 0	0	0
2007	4,632	15,641	20,273
2008	26,840	15,433	42,273
2009	27,058	15,215	42,273
2010	27,286	14,987	42,273
2011-2015	158,219	71,146	229,365
2016-2020	218,658	63,707	282,365
2021-2025	301,928	54,437	356,365
2026-2030	388,481	42,884	431,365
2031-2035	483,878	28,487	512,365
2036-2040	585,598	10,545	596,143
2041-2045	147,000	0	147,000
	<b><u>\$2,369,579</u></b>	<b><u>332,481</u></b>	<b><u>2,702,060</u></b>

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**3-E. Restricted assets**

Certain amounts have been restricted as to usage, generally for debt service. Reservations of net assets have been made in similar amounts. The balances of the restricted assets listed in the statement of net assets are as follows:

	<u>Current Year</u>	<u>Previous Year</u>
Debt service reserve	\$ <u>16,836</u>	—
Total restricted assets	\$ <u>16,836</u>	—

**NOTE 4 - OTHER INFORMATION**

**4-A. Risk management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance.

**4.B. Water service rate change**

Water service rates were changed as of January 1, 2005. The previous rates in effect were:  
Minimum monthly service rate of \$40.00 with a minimum allowance of 8,000 gallons.  
Standby monthly rate of \$10.00 per month.  
Meter charge of \$1.00 per month.

The new rates are as follows:

Minimum monthly service rate of \$45.00 with a minimum allowance of 8,000 gallons.  
Per thousand gallons charge for usage over minimum is \$1.50 per thousand gallons.  
Standby monthly rate of \$25.00 per month.  
The meter charge was eliminated.

**4-C. Contingent liabilities**

The District is a defendant in various lawsuits. Although the outcome of such lawsuits is not presently determinable, in the opinion of management the resolution of these matters will not have a material adverse effect on the financial condition of the District.

**4-D. Employee retirement systems and pension plans**

The District sponsors no retirement or pension plans.